DRA

DIVISION OF RATEPAYER ADVOCATES

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Commission Action: PD is Pending

PG&E Economic Development Rates (EDR)

DRA Position: The CPUC should reject PG&E's EDR proposal and instead adopt DRA's proposal which provides increased incentives for at-risk businesses while protecting customers who subsidize the EDR program.

Background

- **2005:** CPUC established EDR discounted rates as a way to retain and attract business to California. [D. 05-09-018]
  - Customers required to attest that, but for the discounted rate, they would not retain, expand, or locate their load in California.
  - Initially, a price floor was established to include "marginal costs for transmission, distribution, and, if a bundled-service customer, marginal costs for generation."
  - Participation cap of 200 MW.
- **2007:** CPUC modified the adopted price floor to include all nonbypassable charge components. [D.07-09-016]
- **2012:** PG&E submitted updated EDR proposal that would replace EDR program that expired in 2012, which had the serious drawback that, in many cases, customers did not receive the full 12% discount they expected, due to changes in the marginal cost, coupled with "ex post" enforcement of price floors.

DRA Proposal Achieves Appropriate Balance between EDR Program Goals and Protecting Ratepayers

- **Standard 12% EDR Discount:** Eliminates the "clawbacks" of the 2005 EDR program.
- **Enhanced EDR Discount:** Counties with highest unemployment rates would receive discounts starting at 35% and averaging 22% over 5 years, the largest EDR discount ever offered in California.
- DRA's proposal retains important ratepayer protections. [See Table: ***Comparison of PG&E and DRA Proposals***]

(over)

<u>PG&E's Enhanced EDR Proposal Violates State Mandates and Has Inherent Ratepayer Risks</u>

- Does not contain a price floor, which the CPUC explicitly mandates. [D.07-09-016]
  - An additive price floor (including both marginal and nonbypassable costs) is necessary to fully fund nonbypassable charges *without cost shifting* and assure that EDR customers provide a contribution to margin (CTM). [PU Code § 366.2(d)(1), 367(e)(1), 368(b), and 740.4(h)]

- High risk of negative CTM, which would harm ratepayers given that PG&E's 10-year CTM analyses are based on marginal costs that do not increase over a ten year period.
  - History shows that marginal energy costs are volatile, and that current marginal energy costs are at the low end of their range over the last 10 years.
  - If marginal energy costs increase, as is likely, rates will not increase proportionately and CTM may become negative.

- Unlike prior EDR programs, PG&E's proposal has no cap on the number of customers or MW of customer load receiving the discount.

- A typical large industrial (E-20) customer would receive a discount of well over $1 million over 5 years.
  - With no cap and 1,337 potentially eligible customers, the potential revenue loss could exceed $250 million annually, or $1 billion over 5 years.

- PG&E has not shown that a five-year 35% discount is needed to achieve program goals.

- Under PG&E's proposal, fixed 35% discounts could be in effect through 2024 creating a great risk for PG&E's Enhanced discount to become uneconomical if marginal costs increase over time.
  - Contracts could be signed as late as 2017, service on such contracts could start as late as 2019, and terminate as late as 2024.
  - No provision to update discounts for 2014 and 2017 GRC adopted marginal costs.